

Fall 2012
Empirical Research in Financial Accounting
Shu Yeh

Course Objectives

1. To familiarize you with the empirical research in accounting.
2. To provide an understanding of the methodology that underlies the literature.
3. To gain an understanding of the research process and the key elements of appropriate research design.
4. To enable you to critically evaluate existing research.

Grading Policy

- (1) A research proposal, about 25% of the grade. Choice of specific topic should be discussed with the instructor, and tentatively decided upon within 7 weeks.
- (2) A final exam, about 35%.
- (3) Seminar presentation and participation, about 40%.

Class format

Classes will consist of student presentation. When presenting each paper, please keep the following critical questions in mind:

1. What is (are) the research question(s)? What is the paper's motivation? Is (are) the question(s) interesting? Why (not)?
2. What is the study's research design? Consider the sample (firms, time period, special data requirements, etc.), model, and statistical / econometric method(s).
3. What is (are) the paper's major result(s)?
4. What are the paper's major contribution(s) and weaknesses(s)? Does the paper achieve its objective(s)?
5. What questions / issues are left unresolved (i.e., warrant further research)?

Reading List

1. Accounting information and security prices: An introduction

Session 1

Ball, Ray and Philip Brown, 1968, “An empirical evaluation of accounting income numbers”, *Journal of Accounting Research*, 159-178.

Beaver, William H., 1968, “The information content of annual earnings announcements”, *Journal of Accounting Research*, Supplement, 67-92.

2. Accounting information and security prices: Economic and econometric issues

Session 2

Beaver, William H., Richard A. Lambert and Dale Morse, 1980, “The information content of security prices”, *Journal of Accounting & Economics* 2, 3-28.

Beaver, W., R. Lambert and S. Ryan, “The Information Content of Prices: A Second Look,” *Journal of Accounting and Economics*, July 1987, 139-157.

Beaver, W., M. McAnally and C. Stinson, “The Information Content of Prices: A Simultaneous Equations Approach,” *Journal of Accounting and Economics*, 1997, 53-81.

Session 3

Kormendi, Roger C. and Robert C. Lipe, 1987, “Earnings innovations, earnings persistence, and stock returns”, *Journal of Business* 60, 323-345.

Kothari, S.P., 1992, “Price-earnings regressions in the presence of prices leading earnings: Earnings level versus change specifications and alternative deflators”, *Journal of Accounting and Economics* 15, 173-202.

Easton, Peter D., Trevor S. Harris and James A. Ohlson, 1989, Accounting earnings can explain most of security returns: The case of long event windows, *Journal of Accounting and Economics* 15, 119-142.

3. Accounting-based valuation model

Session 4

Ohlson, James A., 1995, “Earnings, book values, and dividends in equity valuation”, *Contemporary Accounting Research* 11, 661-687.

Feltham, Gerald A., and J. Ohlson, **Valuation and Clean Surplus Accounting for Operating and Financial Activities**. By: Contemporary Accounting Research,

Spring 1995, Vol. 11 Issue 2, p689-731

Feltham, G.A. and J. Ohlson, 1996, "Uncertainty Resolution and the Theory of Depreciation Measurement", *Journal of Accounting Research*, 209-34.

Barth, M.E., W.H. Beaver and W.R. Landsman, 1998, "Relative valuation roles of equity book value and net income as a function of financial health," *Journal of Accounting and Economics* 25, 1-34.

Session 5

Timothy Bell, Wayne Landsman, Bruce Miller, and Shu Yeh, 2002, "The Valuation Implications of Employee Stock Option Accounting for Profitable Computer Software Firms", *The Accounting Review* 77, 971-996.

Wayne Landsman, Ken Peasnell, Peter Pope and Shu Yeh, 2006, "Which Approach to Accounting for Employee Stock Options Best Reflects Market Pricing?", *Review of Accounting Studies* 11(2-3), 203-245.

Wayne Landsman, Bruce Miller, Ken Peasnell, and Shu Yeh, Do Investors Understand Really Dirty Surplus? (July 25, 2010). *The Accounting Review* 86(1):237-258.

4. The usefulness of alternative accounting measures

Session 6

Dechow, Patricia M., 1994, "Accounting earnings and cash flows as measures of firm performance: The role of accounting accruals", *Journal of Accounting and Economics* 18, 3-42.

Biddle, Gary, R. Bowen and J. Wallace, 1997, "Does EVA beat earnings? Evidence on associations with stock returns and firm values", *Journal of Accounting and Economics* 24, 301-336.

5. Accounting information and Market efficiency research

Session 7

Bernard, V., and J. Thomas, "Post-earnings Announcement Drift: Delayed Price Response or Risk Premium," *Journal of Accounting Research*, Supplement 1989, 1-36.

Bernard, Victor L. and Jacob Thomas, 1990, "Evidence that stock prices do not fully reflect the implications of current earnings for future earnings", *Journal of Accounting and Economics* 13, 305-340.

Sloan, Richard G., 1996, "Do stock prices fully reflect information in accruals and cash flows about future earnings?" *The Accounting Review* 71, 289-315.

6. Earnings management and contracting theory

Session 8

Hand, J.R.M., 1990, "A Test of the Extended Functional Fixation Hypothesis." *The Accounting Review* 65(4), 740-763

Hand, J.R.M., 1989, "Did firms undertake debt-equity swaps for an accounting paper profit or true financial gain?" *The Accounting Review*, 587-623.

DeFond, Mark L. and Jim Jimbalvo, 1994, "Debt covenant violation and manipulation of accruals", *Journal of Accounting & Economics* 17, 145-176.

Dechow, Patricia, Richard G. Sloan, and Amy P. Sweeney, 1994, "Detecting earnings management", *The Accounting Review* 70, 193-225.

7. Discretionary Disclosure

Session 9

Botosan, C, 1997, "The Impact of Annual Report Disclosure Level on Investor Base and the Cost of Capital", *The Accounting Review* 72, 323-350

Skinner, D.J., 1994, "Why firms voluntarily disclose bad news?" *Journal of Accounting Research* 32, 38-60.

Lang, M., and R. Lundholm, 1993, Cross-sectional Determinants of Analysts Ratings of Corporate Disclosures, *Journal of Accounting Research* 31, 246-271.

Lang, M., and R. Lundholm, 1996, "Corporate disclosure policy and analyst behavior", *The Accounting Review* 71, 467-492.

8. Accounting information and compensation

Session 10

Lambert, R. and D. Larcker, 1987, "An Analysis of the Use of Accounting and Market Measures of Performance in Executive Compensation Contracts", *Journal of Accounting Research* 25 Supplement, 129-149.

9. Analysts forecasts

Klein, A. 1990, "A direct test of the cognitive bias theory of share price reversals", *Journal of Accounting and Economics* 13: 155 - 166.

Keane, M. And D. Runkle. 1998. "Are financial analysts' forecasts of corporate profits rational?" *Journal of Political Economy* 106: 768 - 805.